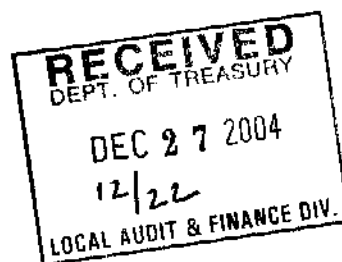


GRANT AREA DISTRICT LIBRARY

FINANCIAL STATEMENTS

JUNE 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

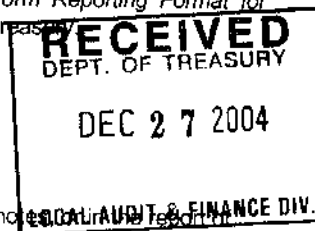
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Grant Area District Library	County Newaygo
Audit Date 6/30/04	Opinion Date 11/30/04	Date Accountant Report Submitted to State: 12/21/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes and comments and recommendations.



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Hendon & Slate, P.C.			
Street Address 711 W. Main	City Fremont	State MI	ZIP 49412
Accountant Signature <i>Jodi DeKruiger, CPA</i>			Date 12/21/04

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GRANT AREA DISTRICT LIBRARY

Library Board

<u>Appointed Official</u>	<u>Position</u>
Leslie Ostin	President
Judy Dykema	Vice- President
Edith Walton	Treasurer
Sherry Powell	Assistant Treasurer
Kay Stone	Secretary
Charlotte Campbell	Assistant Secretary
Rita Haring	Trustee
Melissa Thorne	Trustee

HS & Companies



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Library Board
Grant Area District Library
Grant, MI 49327

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Grant Area District Library as of and for the year ended June 30, 2004 as listed in the accompanying table of contents. These financial statements are the responsibility of the Grant Area District Library Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Grant Area District Library as of June 30, 2004, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Grant Area District Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Grant Area District Library. We did not examine this data and, accordingly, do not express an opinion thereon.

As discussed in Note A, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
November 30, 2004

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GRANT AREA DISTRICT LIBRARY
Management's Discussion and Analysis (MD&A)
June 30, 2004

Using This Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- Notes A through H of the financial statements include information on the Library's General Fund under the modified accrual method. These Notes focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- Note I of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- Note I provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below provides key financial information in a condensed format for the current year (in future years, when prior year information is available, a comparative analysis of government-wide data will be presented):

	<u>2004</u>
Current Assets	\$ 735,993
Capital Assets	<u>3,210,240</u>
Total Assets	<u>3,946,233</u>
Long-term Debt	2,108,682
Other Liabilities	<u>411,919</u>
Total Liabilities	<u>2,520,601</u>
Net Assets:	
Invested in Capital Assets, Net of Debt	1,101,558
Restricted for Debt Service	80,708
Unrestricted	<u>243,366</u>
Total Net Asset	<u>\$ 1,425,632</u>
Revenue:	
Property Taxes	\$ 266,984
Other	<u>555,385</u>
Total Revenue	822,369
Expenses - Library Services	<u>240,101</u>
Changes in Net Assets	<u>\$ 582,268</u>

The Library as a Whole

- The Library's net assets increased by \$582,268 in the current year. The increase is primarily due to increases in grants and other sources of income.

Management's Discussion and Analysis (Continued)

- The Library's primary source of revenue is from property taxes, which represent 61% of total General Fund revenues.
- Salaries and payroll taxes are a significant expense of the Library, representing 46% of total General Fund Expenditures.
- Depreciation expense for the current year represented 24% of the Library's total expenses.
- General Fund fund balance saw a decrease of \$133,116. This reflects a subsidy to the capital project fund.
- General Fund expenditures were 73% of revenues, with revenue exceeding expenditures by \$60,762.
- \$2,575,257 was spent in the current year to build and equip the new Library facility. That amount was funded through the issuance of bonds, a transfer from the General Fund, grants and other miscellaneous capital projects revenue.
- The current year saw the opening of a new 15,000 square foot Library facility and the exodus of the Library director.

The Library's Fund

Our analysis of the Library's major fund is included in Pages 5 and 6 in the first column of the respective statements. The fund column provides detailed information about the most significant fund – not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund decreased during the current year by \$113,116.

Debt service, consisting of principal and interest, was a small use of resources during the current fiscal year. Debt service will become a significant expenditures as a result of the completion of our new 15,000 square foot Library facility in the current year, which was financed by a \$2.1 million bond issue.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in salaries and taxes.

The increase in the budgeted salaries and wages was the result of the anticipated earlier opening of the new Library and the staffing levels associated with it.

The increase in the budgeted amounts for property taxes was the result of the availability of more accurate and final equalized property values.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had nearly \$3.3 million invested in land, building, furniture and equipment, and books and materials. The Library added nearly \$18,000 in new collection items consisting of new books, various audio/visual materials, and the music collection, as well as over \$2.4 million in buildings and improvements.

The Library's debt rating is good. No debt was issued during the fiscal year. The Library's bonded indebtedness totaled \$2,108,682 at June 30, 2004.

Next Year's Millage Rates

On August 4, 2004, the Library Board approved a levy of .8477 mills per thousand dollars of taxable value to service bonded indebtedness. Subject to the Headlee rollback, .9016 was approved to be levied for the purpose of providing Library funds for the operation of the Library.

GRANT AREA DISTRICT LIBRARY

Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2004

	General Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments ^A	Statement of Activities
Assets and Other Debits						
Cash	\$ 179,525	\$ 262,444	\$ 79,040	\$ 521,009	\$ -	\$ 521,009
Accounts Receivable	-	208,614	-	208,614	-	208,614
Due from Other Governmental Units	1,723	-	1,668	3,391	-	3,391
Prepaid Expenses	2,979	-	-	2,979	-	2,979
Land	-	-	-	-	111,000	111,000
Other Capital Assets, Net of Accumulated Depreciation	-	-	-	-	3,099,240	3,099,240
Total Assets	\$ 184,227	\$ 471,058	\$ 80,708	\$ 735,993	3,210,240	3,946,233
Liabilities, Fund Equity and Other Credits						
Liabilities						
Accounts Payable	\$ 6,731	\$ 375,176	\$ -	\$ 381,907	-	381,907
Accrued Liabilities	6,669	-	-	6,669	-	6,669
Deferred Revenue	23,343	-	-	23,343	-	23,343
Long-Term Liabilities						
Bonds Payable, Due Within One Year	-	-	-	-	37,095	37,095
Bonds Payable, Due After One Year	-	-	-	-	2,071,587	2,071,587
Total Liabilities	36,743	375,176	-	411,919	2,108,682	2,520,601
Fund Balance/Net Assets						
Fund Balances						
Unreserved, Undesignated	147,484	-	-	147,484	(147,484)	-
Unreserved, Designated	-	95,882	-	95,882	(95,882)	-
Unreserved, Reported in Debt Service	-	-	80,708	80,708	(80,708)	-
Total Fund Balances	147,484	95,882	80,708	324,074	(324,074)	-
Total Liabilities and Fund Balances	\$ 184,227	\$ 471,058	\$ 80,708	\$ 735,993		
Net Assets:						
Invested in Capital Assets, Net of Related Debt					1,101,558	1,101,558
Restricted for Debt Service					80,708	80,708
Unreserved, Undesignated					147,484	147,484
Unreserved, Designated					95,882	95,882
Total Net Assets					\$ 1,425,632	\$ 1,425,632

^A Notes to the Financial Statements provide the details for main components of the adjustments.

GRANT AREA DISTRICT LIBRARY

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities June 30, 2004

	General Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments ^A	Statement of Activities
Revenue						
Local Sources						
Taxes	\$ 135,577	\$ -	\$ 131,407	\$ 266,984	\$ -	\$ 266,984
Grants	17,672	346,202	-	363,874	-	363,874
Penal Fines	38,495	-	-	38,495	-	38,495
Interest	12,571	10,893	-	23,464	-	23,464
Other	11,244	111,000	-	122,244	-	122,244
Total Local Sources	215,559	468,095	131,407	815,061	-	815,061
State Sources - State Aid	7,308	-	-	7,308	-	7,308
Total Revenues	222,867	468,095	131,407	822,369	-	822,369
Expenditures						
Salaries and Payroll Taxes	73,996	-	-	73,996	-	73,996
Acquisitions - Books, Periodicals & AV	17,924	-	-	17,924	(17,924)	-
Utilities and Telephone	10,169	-	-	10,169	-	10,169
Repairs and Maintenance	91	-	-	91	-	91
Capital Outlay	16,997	2,569,908	-	2,586,905	(2,586,905)	-
Insurance	5,039	-	-	5,039	-	5,039
Supplies, Copy Machine, Postage	9,407	-	-	9,407	-	9,407
Summer Reading Program	1,096	-	-	1,096	-	1,096
Co-op Services	13,252	-	-	13,252	-	13,252
Professional and Contracted Services	7,089	-	-	7,089	-	7,089
Miscellaneous	5,800	5,349	-	11,149	-	11,149
Debt Service - Principal	791	-	-	791	(791)	-
- Interest	454	-	50,699	51,153	-	51,153
Depreciation	-	-	-	-	57,660	57,660
Total Expenditures	162,105	2,575,257	50,699	2,788,061	(2,547,960)	240,101
Excess Revenue Over Expenditures	60,762	(2,107,162)	80,708	(1,965,692)	(2,547,960)	582,268
Other Financing Sources and Uses						
Proceeds from Long-Term Debt	9,473	-	-	9,473	(9,473)	-
Transfers In	-	203,351	-	203,351	(203,351)	-
Transfer Out	(203,351)	-	-	(203,351)	203,351	-
Total Other Financing Sources and Uses	(193,878)	203,351	-	9,473	(9,473)	-
Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses	(133,116)	(1,903,811)	80,708	(1,956,219)	2,538,487	582,268
Fund Balance/Net Assets - July 1	280,600	1,999,693	-	2,280,293	-	2,280,293
Fund Balance/Net Assets - June 30	\$ 147,484	\$ 95,882	\$ 80,708	\$ 324,074	\$ 2,538,487	\$ 2,862,561

^A Notes to the financial statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

GRANT AREA DISTRICT LIBRARY

Notes to the Financial Statements
June 30, 2004

NOTE A NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Grant Area District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

1. REPORTING ENTITY

Grant Public Library was reorganized as the Grant Area District Library as created by Act 24 of the Public Acts of 1989, as amended effective July 1, 1996. The purpose of the Grant Area District Library is to provide library services to the City of Grant and surrounding local units, including the Grant Public Schools. The Library's Board consists of eight appointed board members.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from intergovernmental revenues.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary or trust funds.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10-50 Years
Furniture and Equipment	5-20 Years
Library Books and Materials	3-10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND CASH EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items.

8. COMPENSATED (VACATION AND SICK LEAVE)

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Library employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid accumulated vacation at full rates and accumulated sick leave at one half their rate of pay. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the General Fund.

9. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

10. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

11. TRANSFERS

During 2003-2004, the Library transferred the building designated CD's in the General Fund to the Capital Projects Fund. The amount transferred was \$203,351.

NOTE B DEPOSITS

Legal or Contractual Provisions for Deposits and Investments. The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, states the Library by resolution, may authorize the Treasurer to invest surplus funds in one or more of the following:

Notes to the Financial Statements (Continued)

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Library funds are held at Valley Ridge Bank and Fifth Third Bank and are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
General Fund		
Cash on Hand	\$ 50	\$ -
Checking - Valley Ridge	75,244	78,556
Money Market - Fifth Third	70,214	70,342
CD's - Valley Ridge	<u>34,017</u>	<u>34,017</u>
Total General Fund	179,525	182,915
Capital Projects Fund		
Checking - Valley Ridge	59,093	69,147
CD's - Valley Ridge	<u>203,351</u>	<u>203,351</u>
Total Capital Projects Fund	262,444	272,498
Debt Service Fund		
Checking - Valley Ridge	<u>79,040</u>	<u>79,040</u>
Total Deposits	<u>\$ 521,009</u>	<u>\$ 534,453</u>
FDIC Insured	\$ 200,000	\$ 200,000
Uninsured	250,795	264,239
Money Market Funds	<u>70,214</u>	<u>70,214</u>
Total Deposits	<u>\$ 521,009</u>	<u>\$ 534,453</u>

Notes to the Financial Statements (Continued)

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE C DUE FROM OTHER GOVERNMENTAL UNITS/DEFERRED REVENUE

Receivables at June 30, 2004 consisted of the following:

City of Grant - General Fund	\$ 1,723
- Debt Service Fund	<u>1,668</u>
Total Due from other Governmental Units	<u>\$ 3,391</u>

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	<u>\$ -</u>	<u>\$ 23,343</u>

NOTE D CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended June 30, 2004 follows:

	<u>Balance 7/1/2003</u>	<u>Additions</u>	<u>Retire/ Reclasses</u>	<u>Balance 6/30/2004</u>
Assets not being depreciated				
Land	\$ -	\$ 111,000	\$ -	\$ 111,000
Other Capital Assets				
Building & Improvements	-	2,434,239	-	2,434,239
Construction in Progress	129,137	-	(129,137)	-
Collection	461,005	17,924	-	478,929
Equipment & Furniture	21,690	170,803	-	192,493
Intangible Assets	<u>71,179</u>	<u>-</u>	<u>-</u>	<u>71,179</u>
Totals at Historical Cost	683,011	2,733,966	(129,137)	3,287,840
Less Accumulated Depreciation for:				
Building & Improvements	-	(24,331)	-	(24,331)
Construction in Progress	(1,162)	-	1,162	-
Collection	(11,523)	(23,498)	-	(35,021)
Equipment & Furniture	(6,884)	(6,544)	-	(13,428)
Intangible Assets	<u>(371)</u>	<u>(4,449)</u>	<u>-</u>	<u>(4,820)</u>
Total Accumulated Depreciation	<u>(19,940)</u>	<u>(58,822)</u>	<u>1,162</u>	<u>(77,600)</u>
Capital Assets, Net	<u>\$ 663,071</u>	<u>\$ 2,675,144</u>	<u>\$ (127,975)</u>	<u>\$ 3,210,240</u>

Depreciation expense was charged as follows:

General Fund	\$ 23,763
Capital Projects Fund	<u>33,897</u>
Total Depreciation Expense	<u>\$ 57,660</u>

NOTE E INTERFUND TRANSFERS

	<u>Transfers In</u>		
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Transfers Out:			
General Fund	\$ -	\$ 203,351	\$ 203,351
Capital Projects Fund	<u>(203,351)</u>	<u>-</u>	<u>(203,351)</u>
Total	<u>\$ (203,351)</u>	<u>\$ 203,351</u>	<u>\$ -</u>

The transfer between the General Fund and the Capital Project Fund represents the moving of \$203,351 of building-designated CD's that were previously recorded in the General Fund.

NOTE F CHANGES IN LONG-TERM DEBT

Outstanding Debt

A summary of the Library's long-term debt outstanding at June 30, 2004 is as follows:

	<u>Balance July 1, 2003</u>	<u>Net Borrowings (Payments)</u>	<u>Balance June 30, 2004</u>	<u>Amounts Due within One Year</u>
Bonds Payable - due in annual installments of \$35,000 to \$135,000 through August 2028; interest payable semiannually at 2.0% to 4.4%	\$ 2,100,000	\$ -	\$ 2,100,000	\$ 35,000
Capital Lease - due in monthly installments of \$248.91 through January 2008; interest payable monthly at 11.8%	<u>-</u>	<u>8,682</u>	<u>8,682</u>	<u>2,065</u>
Total General Long-Term Debt Account Group	<u>\$ 2,100,000</u>	<u>\$ 8,682</u>	<u>\$ 2,108,682</u>	<u>\$ 37,065</u>

Debt Service Requirements

The annual requirements to amortize all debt outstanding at June 30, 2004 including both principal and interest are as follows:

Notes to the Financial Statements (Continued)

Year Ended June 30	Bond Issue 2003 Library Building and Site		Capital Lease Office Equipment		Total Requirements
	Principal	Interest	Principal	Interest	
2005	\$ 35,000	\$ 75,070	\$ 2,065	\$ 922	\$ 113,057
2006	60,000	74,120	2,325	662	137,107
2007	60,000	72,920	2,616	371	135,907
2008	60,000	71,720	1,676	67	133,463
2009	60,000	70,430	-	-	130,430
2010-2014	335,000	325,313	-	-	660,313
2015-2019	400,000	265,800	-	-	665,800
2020-2024	485,000	182,585	-	-	667,585
2025-2029	<u>605,000</u>	<u>68,963</u>	<u>-</u>	<u>-</u>	<u>673,963</u>
Total	<u>\$ 2,100,000</u>	<u>\$ 1,206,921</u>	<u>\$ 8,682</u>	<u>\$ 2,022</u>	3,317,625
Less: Interest					<u>(1,208,943)</u>
Present Value of Minimum Lease Payments					<u>\$ 2,108,682</u>

Interest expense of The Library for the year ended June 30, 2004 amounted to \$50,699 on the Bond Issue and \$454 on the Capital Lease.

NOTE G RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE II STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2004, the Library did incur material overexpenditures in the following funds:

Notes to the Financial Statements (Continued)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Utilities and Telephone	\$ 7,000	\$ 10,169	\$ (3,169)
Capital Outlay	1,500	16,997	(15,497)
Miscellaneous	1,949	5,753	(3,804)
Transfer Out	-	203,351	(203,351)
Capital Project Fund			
Miscellaneous	-	5,349	(5,349)
Debt Service			
Interest	-	50,699	(50,699)

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund was adopted at the line item level.

NOTE I RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis \$ 324,074

Amounts reported in the statement of net assets are different because:

 Capital Assets are not financial resources, and are not reported
 in the funds 3,210,240

 Long-term liabilities are not due and payable in the current period
 and are not reported in the funds (2,108,682)

Net Assets of General Fund - Full Accrual Basis \$ 1,425,632

Net change in Fund Balances - Modified Accrual Basis \$ (1,956,219)

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Notes to the Financial Statements (Continued)

Library books and materials	17,924
Capital outlay	2,586,905
Depreciation	(57,660)
Increase in capital lease portion of long-term debt	(9,473)
Repayments of capital lease principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>791</u>
Change in Net assets of General Fund - Full Accrual Basis	<u>\$ 582,268</u>

GRANT AREA DISTRICT LIBRARY

Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended June 30, 2004

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Local Sources				
Taxes	\$ 129,391	\$ 138,749	\$ 135,577	\$ (3,172)
Grants	10,000	10,000	17,672	7,672
Penal Fines	25,000	25,000	38,495	13,495
Interest	200	200	12,571	12,371
Patron Fees	1,500	1,500	2,223	723
Book Fines	2,000	2,000	4,934	2,934
Donations - Memorials	100	100	375	275
Other	<u>500</u>	<u>500</u>	<u>3,712</u>	<u>3,212</u>
Total Local Sources	168,691	178,049	215,559	37,510
State Sources - State Aid	<u>6,000</u>	<u>6,000</u>	<u>7,308</u>	<u>1,308</u>
Total Revenues	174,691	184,049	222,867	38,818
Expenditures				
Salaries and Wages	103,941	106,500	68,198	38,302
Payroll Taxes	12,000	12,000	5,798	6,202
Acquisitions - Books	12,000	10,500	12,429	(1,929)
- Periodicals	2,000	1,800	968	832
- Audio-Visual	3,000	2,800	4,527	(1,727)
Utilities and Telephone	6,500	7,000	10,169	(3,169)
Repairs and Maintenance	1,000	2,000	91	1,909
Capital Outlay	1,000	1,500	16,997	(15,497)
Insurance	3,500	5,000	5,039	(39)
Program Supplies	-	-	246	(246)
Copy Machine	-	-	154	(154)
Office Supplies	5,000	9,000	8,151	849
Postage	-	-	856	(856)
Summer Reading Program	2,500	2,500	1,096	1,404
Co-op Services	14,000	14,000	13,252	748
Professional and Contracted Services	7,000	7,500	7,089	411
Printing and Publishing	-	-	32	(32)
Training	-	-	15	(15)
Miscellaneous	1,250	1,949	5,753	(3,804)
Debt Service - Principal	-	-	791	(791)
- Interest	<u>-</u>	<u>-</u>	<u>454</u>	<u>(454)</u>
Total Expenditures	<u>174,691</u>	<u>184,049</u>	<u>162,105</u>	<u>21,944</u>
Excess Revenues Over (Under) Expenditures	-	-	60,762	60,762
Other Financing Sources (Uses)				
Transfer Out	-	-	(203,351)	(203,351)
Proceeds from Long-Term Debt	<u>-</u>	<u>-</u>	<u>9,473</u>	<u>9,473</u>
Total Other Financial Sources (Uses)	<u>-</u>	<u>-</u>	<u>(193,878)</u>	<u>(193,878)</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(133,116)	(133,116)
Fund Balance - July 1	<u>-</u>	<u>-</u>	<u>280,600</u>	<u>280,600</u>
Fund Balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,484</u>	<u>\$ 147,484</u>

GRANT AREA DISTRICT LIBRARY

Required Supplementary Information Budgetary Comparison Schedule - Capital Projects Fund For the Year Ended June 30, 2004

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Local Sources				
In-Kind Donations	\$ -	\$ -	\$ 111,000	\$ 111,000
Grants	515,000	515,000	346,202	(168,798)
Penal Fines	-	-	-	-
Interest	9,000	9,000	10,893	1,893
Patron Fees	-	-	-	-
Donations - Memorials	-	-	-	-
Other	<u>2,114,286</u>	<u>2,114,286</u>	<u>-</u>	<u>(2,114,286)</u>
Total Revenues	2,638,286	2,638,286	468,095	(2,170,191)
Expenditures				
Capital Outlay	2,838,286	2,838,286	2,569,908	268,378
Miscellaneous	<u>-</u>	<u>-</u>	<u>5,349</u>	<u>(5,349)</u>
Total Expenditures	<u>2,838,286</u>	<u>2,838,286</u>	<u>2,575,257</u>	<u>263,029</u>
Excess Revenues Over (Under) Expenditures	(200,000)	(200,000)	(2,107,162)	(1,907,162)
Other Financing Sources				
Transfer In	<u>200,000</u>	<u>200,000</u>	<u>203,351</u>	<u>3,351</u>
Total Other Financing Sources	200,000	200,000	203,351	3,351
Excess Revenue Over Expenditures and Other Financing Sources	-	-	(1,903,811)	(1,903,811)
Fund Balance - July 1	<u>-</u>	<u>-</u>	<u>1,999,693</u>	<u>1,999,693</u>
Fund Balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,882</u>	<u>\$ 95,882</u>

GRANT AREA DISTRICT LIBRARY

Required Supplementary Information Budgetary Comparison Schedule – Debt Service Fund For the Year Ended June 30, 2004

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Local Sources				
Taxes	\$ -	\$ -	\$ 131,407	\$ 131,407
Total Revenues	-	-	131,407	131,407
Total Expenditures	-	-	-	-
Excess Revenues Over (Under) Expenditures	-	-	131,407	131,407
Other Financing Sources (Uses)				
Interest Expense	-	-	(50,699)	(50,699)
Total Other Financing Sources (Uses)	-	-	(50,699)	(50,699)
Excess Revenue Over (Under) Expenditures and Other Financing Sources (Uses)	-	-	80,708	80,708
Fund Balance - July 1	-	-	-	-
Fund Balance - June 30	\$ -	\$ -	\$ 80,708	\$ 80,708

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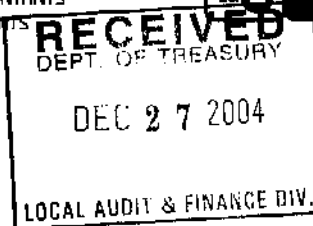
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December 15, 2004

Library Board
Grant Area District Library
Grant, MI 49437



Dear Board Members:

It is our pleasure to present you with the annual financial statements for the year ended June 30, 2004 of the Grant Area District Library.

As part of our audit, we studied and evaluated the District's accounting and administrative controls as well as compliance with laws having a bearing on the fair presentation of your financial statements. Because this study was only part of the overall audit plan, it is not intended to be a complete review of all your accounting procedures; and therefore, would not necessarily disclose all weaknesses in your system. Accordingly, we offer the following comments and recommendations.

RECORD KEEPING

Bank Reconciliations

We are pleased to inform the board that the bank reconciliations are now being completed by the bookkeeper in the Quickbooks system, as recommended last year.

Receipts and Remittance Advices

Some remittance advices were missing from the documentation of deposits. Remittance advices are considered original source documents and required to be retained, along with deposit slips and receipts. Remittance advices are generally the check stubs from the checks received and typically explain why the funds were received by the Library. It has come to our attention that some items are not received by the Library directly. This practice circumvents the Library's internal control over the receipts. This has resulted in some items received not being receipted into the receipt book. All amounts received, should be receipted. In order to correct these issues, we recommend that all mail be received at the Library and handled by the assigned person.

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Muskegon
950 W. Norton Ave.
Suite 500
Muskegon, MI 49441
Phone (231) 733-0076
Fax (231) 733-0185

Hart
2332 North Comfort Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

Whitehall
116 W. Colby, Suite B
Century Building
Whitehall, MI 49461
Phone (231) 893-6772
Fax (231) 893-6773

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Chart of Accounts

The State of Michigan has a prescribed chart of accounts which is required to be used by all governmental units within the State. We found that the Library was not properly using this chart of accounts. We recommend that the Library accounting system be up-dated for this requirement.

Transfers to Capital Projects Fund

We noted that the Library held some Certificates of Deposit (CDs) which were designated to be used for the capital project fund. These CDs were being accounted for in the General Fund. Therefore, the CDs needed to be transferred from the General Fund to the Capital Projects Fund. This transfer was not budgeted for in either fund. We recommend that the Library Board approve this and all future transfers in the minutes. Also, future transfers should include budget amendments to reflect this transaction.

Audit Difficulties

Due to the abrupt loss of the Director, the interim director and bookkeeper were presented with a challenge of providing the documentation for the audit. While on location, we requested several documents which readily provided, however, some items were difficult or even impossible to locate. After completion of the field work, we requested several additional invoices and other documents which were not available from the Library documentation. However, these items were later located through contacting the vendors directly. I want to commend Judi and Lisa for the wonderful job they did in answering our questions and finding the documentation we needed.

We made several verbal recommendations to Lisa to assist in having the appropriate documentation including only paying bills with proper approval and account codes. We also recommended (as reported in the previous audit) the use of Class codes to properly track grant expenditures. This recommendation will have to be accompanied by the Director's guidance as to the appropriate grant (if any) when approving payment of expenditures. The Board will also be responsible for over-sight of grant expenditures which can be provided with a Class report.

Additionally, the accounting system being used by the bookkeeper did not have the appropriate opening balances entered into the system. This information was corrected while we were on-site by Lisa, with our guidance.

Finally, the Capital Projects Fund posed a significant audit issue which was not apparent at the beginning of the audit. As part of verifying the invoices for expenditures related to the building, we had to review documentation from The Fremont Area Community Foundation as well as from Judi. This information was time consuming to review and significantly increased the time on this audit. We tried to coordinate this assistance with the additional work necessary for the tracking and depreciating the capital assets required by GASB 34, however, additional time was necessary to properly determine the value of the assets for proper reporting.

BUDGETING

As noted in last year's comments and recommendations letter, the Library is not properly amending the budget for expenditures which were not expected at the time of adopting the original budget. The common phrase is "amend before you spend". The budget must reflect expenditures prior to the expenditure occurring. Future budgets should be amended to properly reflect expenditures.

As part of the budgeting process, we also noted that the millage levy was not being properly set with the budget hearing. For the up-coming year this budget hearing was apparently re-done to correct for this error. The Board should review the budget and other State requirements to be sure that all requirements are being met.

We are happy to report that the Board properly adopted a budget for the Capital Projects Fund for the audit year, however, the Debt Service Fund was not budgeted for in this year. In future years, the Capital Projects Fund will no longer be necessary, however, the Debt Service Fund will continue until the Bonds are repaid. Each year the Board needs to approve a budget for the Debt Service Fund in addition to the General Fund.

POLICIES

Investment Policy

We noted that the Library did not have an investment policy. This is a State requirement and should be drafted and adopted as soon as possible. Part of this requirement also includes providing a copy to the banks with which the Library has investments.

Board Over-sight

The ultimate responsibility of the Board is the over-sight of the Library operations. However, the Board is also required to hire competent employees to perform the day-to-day operations. We recommend that the Board, upon hiring the new Director, allow the operations to revert back to the Director. The Board should, as part of its over-sight, receive reports on a timely basis to be able to determine that the Library operations are appropriate. The Board should request any additional information which is not apparent from the reports, if a question arises. For example, when bills are being paid, the invoices should be available to review in case there is a question as to the accuracy or validity of the invoice. The reports that the Board should be receiving monthly include the balance sheet, profit and loss, budget to actual comparison, and grant detail reports. Also, the bank reconciliation should be reviewed by the Board or the Treasurer every month for unusual items.

NEW REPORTING MODEL (GASB 34)

The year has finally arrived, the financial statements are now being reported using the changes required under GASB 34. As you can see from the report, the biggest change for your organization has been the lay-out of the financial statements and the recording of depreciation against operating income. The Management's Discussion and Analysis (MD&A) is also included in the financial statements. This is a valuable tool for informing the public of

your current status and your future goals. In future years, this information will be even more useful as comparisons can aid in the providing of this information.

SUMMARY

We appreciate the courtesy extended to us during the course of the audit including the prompt attention to our inquiries by Judi and Lisa. If you have any questions regarding that above matters, please let me know. We look forward to continuing to serve the Grant Area District Library.

Respectfully submitted,

A handwritten signature in black ink that reads "Jodi DeKuiper, CPA". The signature is written in a cursive, flowing style.

Jodi DeKuiper, CPA
Hendon & Slate, P.C.